



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 716** HLS 13RS 1032

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 7, 2013	1:08 PM	Author: RICHARD
Dept./Agy.: Revenue		
Subject: Sales Tax Base Expansion and Rate Decrease		Analyst: Greg Albrecht

TAX/SALES & USE

OR SEE FISC NOTE GF RV

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Decreases the state sales and use tax rate and repeals exclusions and exemptions from state sales and use tax

The bill broadens the state sales tax base to essentially all transactions currently specifically exempted in statute, and lowers the state sales tax rate to 2.88% (from 4%). No new services or local taxes are included.

Effective January 1, 2014.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total		\$0	\$0	\$0	\$0	\$0

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

The Department of Revenue will likely incur additional costs to implement the bill, especially with regard to the expansion of the tax base to currently exempt transactions. One-time system modifications and ongoing taxpayer education, guidance and inquires will have to be carried out. For typical modifications as tax laws are changed each year, the workload costs are generally in the \$20,000 - \$40,000 range. This bill will likely involve more than the typical effort and costs could be several hundred thousand dollars, and necessitate additional resources for the department.

REVENUE EXPLANATION

According to the Revenue Department’s 2012-2013 Tax Exemption Budget, the foregone revenue from statutory sales tax exemptions is some \$1.2 billion per year. Virtually all of that is on a 4% tax rate basis. There are some preferential rate transactions, but they are small relative to the total foregone revenue. The current total sales tax receipts from the statewide 4% tax rate is some \$2.927 billion (general plus vehicle). The combination of the existing tax base and the exempt tax base implies total tax of some \$4.1 billion. From a broad perspective, the annual average yield of 1% of tax rate on the combined tax base is approximately \$1.025 billion; implying total tax receipts at a 2.88% rate of \$2.952 billion. This is approximately the amount of existing receipts from the existing base. Thus, the bill’s base expansion and lower rate is approximately revenue neutral relative to the existing narrower base and higher rate.

Caution needs to be advised. This is a significant change to nearly 30% of the state’s tax revenue. Over one-half of the exempt transaction base is reported on a single catch all line of the state sales tax return, with no information as to it’s composition. In addition, collecting tax from many exempt transactions at the appropriate level and timeliness will entail a ramp-up of taxpayer education and compliance. Even a tax rate reduction on currently taxable transactions will take some time to normalize. However, net revenue losses seem likely in the initial period of this tax change.

Senate

Dual Referral Rules

House

☐ 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

☐ 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

☐ 6.8(F) >= \$500,000 Annual Fiscal Cost {S}

☐ 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

John D. Carpenter
Legislative Fiscal Officer